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UNCLAS SECTION 01 OF 03 BELGRADE 001330

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EAIR](#) [EINV](#) [JAT](#) [SR](#)

SUBJECT: Serbia's Flying Circus: Opening JAT to Competition

REF: A) BELGRADE 1136; B) BELGRADE 697; C) BELGRADE 751

SUMMARY

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11. (SBU) After an early October strike by aircraft maintenance firm JAT Tehnika that grounded JAT airline planes (Ref A), Serbia's civil aviation officials are picking up the pace to open the market to foreign competition and expand airport facilities. Foreign carriers, especially discount airlines, are moving to enter or reposition themselves in the market after planned December relaxation of Schengen visa requirements for Serbia. The only airline not positioned to enjoy the benefits of these market changes is the bankrupt national carrier JAT. Aviation officials and market observers agree that the airline has little future, but cannot agree whether it is best to let the carrier die quickly or just slowly fade away. END SUMMARY.

Aftermath of JAT Tehnika Strike

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12. (SBU) The two day strike by JAT Tehnika at the beginning of October (Ref A) ended with no real agreement between JAT Airways and JAT Tehnika. The government paid most of JAT's debts to JAT Tehnika, but problems remain. The government's most pressing decision is whether to let JAT continue as a "zombie company" or pull the plug and leave the bankrupt airline to its fate. JAT continues to lose money due to inept management, political cronyism and bad service. The airline can only keep half of its total fleet of sixteen planes flying and cancels at least two daily flights from Belgrade, Velimir Radosavljevic, Belgrade's acting airport director, told us on October 28. Slobodan Stamenkovic, Lufthansa's account manager for Serbia told us on November 3 that JAT also maintained expensive offices in cities across the world, including Toronto, New York and Sydney, even though it had not flown to any of these cities for over a decade. Civil aviation officials have responded to this dilemma by taking steps to open Serbia's aviation market to foreign competition and expressing a strong desire to privatize JAT Airways.

## Serbia Opens Skies

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13. (SBU) In anticipation of the EU's planned visa liberalization for Serbia in December (Ref B), Serbian aviation officials seem determined to fully implement the European Common Aviation Area (ECAA) open skies agreement and open their market to foreign competition. Nebojsa Starcevic, director of the Serbian Civil Aviation Directorate, told us on October 30 that "Serbia has the most liberal approach to implementing the ECAA at the moment." Starcevic said that his ministry had issued licenses to two new airlines to fly into Belgrade beginning in December and that they would issue more licenses to anyone who applied. He also said that Serbia was finalizing bilateral civil aviation agreements with Australia, Russia and China and that he expected an open skies agreement with the United Arab Emirates to be signed in November. He added that flights between Serbia and the UAE would start in summer 2010 and intercontinental flights through Belgrade by 2011. (NOTE Starcevic did not outline any specific actions his ministry was taking to prepare Serbia for Tier One FAA certification. Miodrag Miljkovic, the State Secretary for Aviation in the Infrastructure Ministry, told us on November 3 that his office would soon submit a new draft civil aviation law to Parliament and hoped to have it adopted by the beginning of next year. He gave a copy of this law to us and we have passed it on to the FAA for

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comment and review. END NOTE)

## Belgrade Welcoming Discounters

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14. (SBU) Velimir Radosavljevic told us on October 28 that Belgrade's airport was actively courting discount airlines and planned to dedicate a terminal solely to these carriers. He said that Wizzair, Central Europe's largest discount airline, was interested in Belgrade as a hub. He calculated this would add over 300,000 new passengers annually flying from Belgrade. He said that total passenger numbers for 2009 would be around 2.4 million and that he expected over 3 million passengers in 2010. Emirates Airline would begin flying four times per week from Abu Dhabi and that other airlines had increased passenger capacity from Belgrade as well, Radosavljevic said.

## Strategic Partner Needed for JAT

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15. (SBU) Recent Serbian government moves to open its air market have raised further questions about the future of JAT Airways. Miljkovic told us on November 3 that the government hoped to privatize the airline next year, adding that it could not survive without a strategic partner. Srdjan Radovanovic, the airline's CEO, told us on October 30 that the airline's ultimate goal was to find a strategic partner. He believed JAT could retain its 40% share of Belgrade airport flights and keep its status as Serbia's national carrier. He said JAT would continue flying to overseas destinations and that it welcomed increased competition from other carriers. When asked about JAT's plans to become more competitive, Radovanovic compared the Serbian aviation market to Belgrade's

"Silicone Alley" entertainment district. He said that where there had been only one bar twenty years ago, now there were many and all were profitable. He optimistically predicted the same for JAT and its competitors.

"JAT is Dead, but They Do Not Know It Yet."

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16. (SBU) Other industry players have not been as positive in their assessments of JAT's future. On October 28, Vladan Kronic of JAT Tehnika called the airline a "parasite that was killing its hosts", adding "JAT is dead, but they still do not know it." CAD Director Starcevic was equally negative in his assessment on October 30. He estimated that the airline would not survive the next six months and said that only radical measures such as a new fleet or deep cost cutting could save JAT at this point. Starcevic said that JAT had nothing to offer investors beyond some real estate, infrastructure and its name. Miljkovic of the Infrastructure Ministry also admitted on November 3 that while the government was trying its best to make the bankrupt air carrier attractive for investors, its only valuable assets were market slots in larger European airports or real estate in locations such as London.

Boeing Still Leasing

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17. (SBU) JAT has made moves to renew its fleet and turn itself around despite the growing pessimism about its future. Local media reported that Boeing secured an agreement with the airline on October 22 to lease two new planes starting next year. Boeing officials remain optimistic that this could become a reality. JAT CEO Radovanovic also told us on October 30 that a JAT representative was in Dubai exploring options for a future strategic partner for the airline. Many observers conceded as well that the airline might have a chance to survive if it repositioned itself as a regional carrier, focusing on the Balkans and other nearby European countries.

Established Competition See Opportunities

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18. (SBU) Lufthansa and Austrian Air are the two largest airlines serving Belgrade. Lukas Negedly, Austrian's country manager for Serbia, told us on November 3 he was optimistic about the government's changes to the industry. Although he was uncertain how visa liberalization would affect air travel from Belgrade, he thought the government's passenger projections were overly optimistic. He also said that Austrian did not fear competition from discount airlines because they served a different kind of customer. When asked about JAT, Negedly said that the airline had no real plan for recovery and that no serious airline would consider investing in the bankrupt carrier. Slobodan Stamenkovic, Lufthansa's key account manager for Serbia, echoed Negedly's opinions. He told us on November 3 that JAT was "irrational" and

had "great potential, but that "time was running out" for the airline. He was also sanguine about the prospects for visa liberalization providing a large boost to passenger numbers from Belgrade.

COMMENT

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19. (SBU) Serbian aviation authorities seem to be making the right moves in opening up the country's civil aviation sector and bringing real competition to the market. JAT airlines is bankrupt, ineptly managed, and its aging fleet desperately needs replacement. Drastic restructuring and cost cutting are imperatives if JAT is to survive. These measures will be a hard political sell, however. The toxic combination of Serbian national pride protecting the national carrier and senior politicians' refusal to solve this tough problem may keep JAT flying in the face of all economic logic. End Comment.  
BRUSH